

**Answer to question on notice:**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**INQUIRY INTO THE IMPLICATIONS OF COMMON OWNERSHIP AND CAPITAL  
CONCENTRATION IN AUSTRALIA**

**CO-FSC01QON:**

Mr Briggs: We have about a hundred members. They're broken up between the different cohorts of the industries we represent. I could take on notice the exact split across different sectors if you like, but in general I think we have about 115 across the financial services sector.

Ms HAMMOND: Yes, it would be good if you could take that on notice. What are the membership fees?

Mr Briggs: It is a variable scale based on the number of lines of businesses you operate as well as the size of your business. There's an enormous amount of variation across the different cohorts of membership.

Ms HAMMOND: Ranging from what to what?

Mr Briggs: I think it ranges from as low as about \$5,000 to \$10,000 through to as high as a couple of hundred thousand dollars, but I would have to check.

**Answer:**

Our membership split for full members is as follows:

- 32 pure fund managers
- 10 pure life insurers
- 8 reinsurers
- 9 advice licensees
- 14 superannuation funds (RSE Licence holders)
- 10 members operate in more than one sector

The complete list of FSC full members is available here: <https://fsc.org.au/about/fsc-members>

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**CO-FSC02QON:** Dr MULINO: Without wanting to put a number on it, because it's obviously very context-dependent, diversification is in a sense a material determinant of performance and of being able to maximise returns for a given amount of risk.

Mr Briggs: That's right. My first point is that it's an extremely well-established feature of investment strategies—diversification both lowers risk and can boost returns. We can happily take it on notice to point you towards some of those articles if that would assist. My second point escapes me, sorry. There was a second point, and I'm sure it will come back to me as soon as we finish this, and I'll have to try to weave it back in.

Dr MULINO: That's fine. Anything on notice about that would be useful.

**Answer:** The FSC has argued in its written submission that proposals overseas that call for the restriction of stock holdings in rival firms within an industry (eg: a fund can only hold 1% of aggregate equity in several competitor firms, or a fund can only hold stocks in a single firm within an industry) would prevent the proper diversification of investments.

Diversification is fundamental to financial risk management and ensuring sustainable long term returns. This is because diversification means an investment portfolio is less exposed to loss that may arise from the poor performance of a single stock. Within a single industry, some firms will succeed more than others and some firms may suffer loss or fail quickly and unpredictably. It is important for a fund that is seeking the best financial interests of its members to be able to mitigate against unforeseen losses, while also reaping the benefits from well performing firms.

The following is some useful literature on the problems that the proposals in some common ownership academic literature pose for diversification:

C Scott Hemphill and Marcel Kahan, 'The Strategies of Anticompetitive Common Ownership' (2020) 129 The Yale Law Journal 1449. (<https://www.yalelawjournal.org/article/strategies-of-anticompetitive-common-ownership>)

Committee on Capital Markets Regulation 'An Analysis of Proposals to Restrict Institutional Ownership' (2019) (<https://www.capmktreg.org/wp-content/uploads/2019/03/CCMR-Analysis-of-Common-Ownership-Proposals.pdf>)